

farming **finance**

Land leasing can be as lucrative as dairy

advice

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TWO weeks ago I looked at the practical pros and cons of leasing out the farm.

In this article I will look at the financial case for leasing versus farming.

In order to make a realistic comparison I will compare dairy farming with leasing out the farm as making comparisons with dry stock or tillage would clearly be a mismatch given the poor returns these enterprises are currently yielding.

Rising milk prices are likely to exert upward pressure on rents once again and a more positive outlook for dairy commodities is likely to tempt more dairy farmers into long term leases. The rental market for land in 2014 and 2015 went a little bit off the scale with rents of up to and beyond €300 per acre being paid. While this is good for the landowner it may not be sustainable for the tenant.

This was partially caused by strong milk prices but also due to the onset of the Basic Payment Scheme and the additional demand for land asso-

ciated with the Young Farmer and National Reserve Schemes.

However, 2016 saw rents return to a more sustainable level whereby they were still attractive to the landowner but also a bit more affordable for the tenant. Typically new leases in 2016 saw rents close to or maybe under €200/ac, but early indications would suggest that 2017 will see rents creeping up to or above the €200/ac figure and even considerably higher in the stronger dairy areas.

CASE STUDIES

Every case will be different so I am using a fairly typical scenario of a 120ac farm currently being farmed exclusively as a dairy farm with 80 cows and followers along with a Basic Payment of €12,000.

The farm profit, including Basic Payment, is calculated to amount to €52,000 based on a milk price of 31c/l as per the 2017 ACA Farmers' Handbook.

In the two case studies set out in this article it is assumed that the Basic Payment entitlements will yield a rent equivalent to 100pc of their payment value

but it is important to remember that continued leasing of entitlements may be dependent on future Basic Payment Scheme rules or indeed its successor scheme due in 2019.

CONCLUSIONS

In Case Study 1 there is a net financial benefit of €4,170 in favour of farming but the leasing option could yield certain benefits such as entitlement to education grants as the gross income is under the eligibility threshold.

In Case Study 2 there is actually a small benefit in favour of leasing which may just be the stimulus that a pensioner farmer may need to make the hard decision.

In many cases, however, the main deterrent to leasing the farm is the cessation of farming activity that removes the incentive to get up in the morning.

This is a very real concern that for many may outweigh the financial considerations.

However the constant demands of dairy farming can be challenging for those farmers nearing or in the pension age bracket.

Perhaps consideration could be given to retaining a small acreage to continue a livestock enterprise while leasing the bulk of the farm.

Continuing with a farm enterprise, however small, may have its benefits such as the favourable treatment afforded to the owners of leased out entitlements when the Single Farm Payment Scheme was replaced by the BPS.

Another option worthy of consideration may be some form of collaborative arrangement with your prospective tenant such as replacement rearing or relief milking.

Semi-retired farmers could still have an important and rewarding role to perform in the dairy industry.

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CASE STUDY 1: AFTER TAX RETURN OF LEASING FARM V'S DAIRY FARMING FOR A FARMER UNDER 65

Assumptions:

- The farm is 120 acres in size.
- Dairy farm taxable profit of €52,000 based on a milk price of 31 cent per litre.
- Assumed land rent of €200 per acre or €24,000 in total based on a seven year lease along with a Basic Payment Entitlement rent amounting of €12,000 per annum.
- The farmer is married, is under 65 and his wife is using up her full low tax band.

	Dairying	Leasing
Tax able farm profit/ Gross lease income	52,000	36,000
LESS: 7 year lease exemption	-	22,500
Taxable	52,000	13,500
Tax, PRSI & USC (assume single tax credit & band)	15,410	3,580
Net after tax income	36,590	32,420

CASE STUDY 2: AFTER TAX RETURN OF LEASING FARM V'S DAIRY FARMING FOR A FARMER OVER 66 AND IN RECEIPT OF THE STATE PENSION

This case study is similar in all respects to case study 1 apart from the fact that the farmer is over 66 and is in receipt of the Contributor State Pension.

	Dairying	Leasing
Tax able farm profit/ Gross lease income	52,000	36,000
LESS: 7 year lease exemption	-	-22,500
OAP	12,392	12,392
Income subject to Income Tax	64,392	34,892
Tax & USC (assume single tax credit & band)	17,342	2,723
Net after tax income	47,072	47,369



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